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**South Carolina
Division of General Services**

PROCUREMENT AUDIT AND CERTIFICATION

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S.C. DEPT. OF PARKS, RECREATION AND TOURISM

AGENCY

JULY 1, 1984 - JUNE 30, 1985

DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVASIS STREET
COLUMBIA, SOUTH CAROLINA 29201
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HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

March 2, 1987

Mr. Richard W. Kelly
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

Attached is the final South Carolina Department of Parks, Recreation and Tourism audit report and recommendations made by the Office of Audit and Certification. Since no certification request above the \$2,500 allowed by law remains to be considered by the Budget and Control Board, I recommend that this report be presented to Dr. Coles for his information.

Sincerely,

William J. Clement, AIA
Assistant Division Director

**SOUTH CAROLINA DEPARTMENT OF
PARKS, RECREATION AND TOURISM
AUDIT REPORT**

July 1, 1984 - June 30, 1985

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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

March 10, 1986

Mr. William J. Clement
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina Department of Parks, Recreation and Tourism for the period of July 1, 1984, through June 30, 1985. As part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Department procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the Department of Parks, Recreation and Tourism is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of

control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Department of Parks, Recreation and Tourism in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

R. Voight Shealy

R. Voight Shealy, Manager
Office of Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies of the South Carolina Department of Parks, Recreation and Tourism.

Our on-site review was conducted October 21, through December 30, 1985, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20 which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in State procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules of ethical behavior on the part of all persons engaged in the public procurement process.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Parks, Recreation and Tourism and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

The Audit and Certification team selected random samples for the period July 1, 1984, through June 30, 1985, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) disposition of surplus property;

- (10) economy and efficiency of the procurement process;
and
- (11) Minority Business Enterprise Utilization Plan
review.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Parks, Recreation and Tourism (P.R.T.) produced findings and recommendations in the following areas:

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I. <u>COMPLIANCE - GENERAL</u>	8
A. <u>Sole Source Procurements</u>	8
Sole source procurements were made without adequate justifications and not reported on a timely basis.	
B. <u>Minority Business Enterprise Utilization Plan</u>	10
The Department does not have approved plans for 1984/85 and 1985/86 Fiscal Years.	
C. <u>Procurement Methodology</u>	10
The Department failed to meet competition requirements on three purchases.	
II. <u>DECENTRALIZED PROCUREMENT</u>	11
The Department's procurement system has procedural weaknesses which dilute internal controls.	
III. <u>WEAK WAREHOUSE PROCEDURES</u>	14
We noted several weaknesses at the supply and service center which affect efficiency and internal controls.	

IV. LOST DISCOUNTS

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Several vendor discounts were not taken.

V. INTERNAL PROCUREMENT OPERATING PROCEDURES MANUAL

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The Department's procurement activity warrants a comprehensive procedures manual.

RESULTS OF EXAMINATION

I. COMPLIANCE - GENERAL

A. Sole Source Procurements

On March 6, 1985, we examined P.R.T.'s sole source and emergency procurement activity for the period January 1, 1983 - December 31, 1984. The results of that examination are shown on Attachment A.

Since this was accomplished, we examined the sole source and emergency procurement activity for the period January 1 - June 30, 1985. The following exceptions were noted:

1) Sole Source Procurements

The following sole source procurements are questionable as such:

	<u>Purchase Order</u>	<u>Amount</u>	<u>Description</u>
1.	59509	\$699.24	Millwork windows
2.	59508	\$958.05	Aluminum roofing

Section 19-445.2105 of the regulations indicates, "Sole source procurement is not permissible unless there is only a single supplier." Further, this section states, "In cases of reasonable doubt, competition should be solicited." For something to be determined sole source both the vendor and the item or service must be unique. We recommend the Department be more cognizant of these requirements.

2) Emergency Procurements

The determinations for the following two emergency procurements do not adequately justify the immediate need for the items procured.

	<u>Purchase Order</u>	<u>Amount</u>	<u>Justification</u>
1.	60467	\$997.84	Replaced water pump. Did not have water for camper use.
2.	64123	\$926.93	This pump supplies water to the camp- ground.

Section 19-445.2110, Subsection D, of the regulations states, "Any governmental body may make emergency procurements when an emergency condition arises and the need cannot be met through normal procurement methods..." The above justifications do not clearly explain what condition arose to create the emergencies. Further, they do not explain why the need could not be met through normal procurement methods. Since these procurements were less than \$1,500.00 each, normal procurement methods only require two telephone solicitations.

AGENCY RESPONSE

The Agency is well aware of the regulations in this area, and will make a concerted effort to see that all such purchases are in compliance with the applicable laws and regulations. We feel, however, that the exceptions cited are a minor percentage of the total.

B. Minority Business Enterprise Utilization Plan

P.R.T. does not have an approved Minority Business Enterprise Utilization Plan for fiscal years 1984/85 and 1985/86. Section 11-35-5240(2) of the Procurement Code requires that these plans be submitted to the Office of Small and Minority Business Assistance for approval not later than July 30, annually.

These plans should be submitted to the Office of Small and Minority Business Assistance immediately.

AGENCY RESPONSE

Our 1986/87 plan was submitted on August 26, 1986. Our files indicated that our 1984/85 plan was completed and submitted on September 4, 1984. We agree that no plan was submitted for the 1985/86 fiscal year. We will make an effort to see that this plan is submitted as required.

C. Procurement Methodology

Our examination of the Department's procurement activity included a review of sample transactions selected from fiscal year 1984-85. The following procurements were not supported by the proper evidence of competition.

<u>Voucher Number</u>	<u>Amount</u>	<u>Description</u>
15677	\$2,000.00	Used Cross Ties
15089	\$779.94	Office Supplies
16065	\$2,480.00	Welding Services

Vouchers 15677 and 16065 were not supported by written quotations and voucher 15089 was not supported by phone quotations as required by Regulations 19-445.2000 and 19-445.2100, nor were they justified as sole source or emergency procurements. Future procurements must be supported by the proper evidence of competition.

AGENCY RESPONSE

We are aware of the regulations in this area, and agree that procedures were not followed in the three (3) procurements cited. We will make every effort to see that all procurements are in line with established procedures.

II. DECENTRALIZED PROCUREMENT

Except for the Parks Division, the Department's procurement activity is decentralized. Procurement authority and responsibility is not delegated to any one section. Under the present system, procurements are made by various personnel. Once prices are obtained, field purchase orders are issued by the various sections. After goods or services are received, purchase orders and vendor invoices are forwarded to Accounts Payable for payment. We noted the following weaknesses in this system:

- 1) Field purchase order books are issued to personnel throughout the Department. In some cases, issue logs are maintained but there are no written control procedures for the collection of used books or monitoring of

them. We acknowledge that field purchase orders may be needed by park rangers since they are located throughout the State. However, issuance of purchase order books to over thirty people at the central headquarters seems unnecessary. To strengthen internal control, we recommend that authority and responsibility for procurement activity be assigned to one person or section for each division.

2. In most cases, initiating documents are not used. A properly approved requisition serves as authorization to initiate procurement action. We recommend the use of requisitions to formally document procurement approval.
3. As stated earlier, Department procedures allow personnel to issue purchase orders, receive goods and services, and receive and approve vendor invoices for payment. This is an unnecessary internal control risk to the Department. All vendor invoices should be received by Accounts Payable so that independent verification can take place.
4. There is no change order mechanism to authorize necessary changes to field orders due to delivery, quantity or description adjustments. Without this procedure, there is a tendency to make confirming purchases by issuing purchase order numbers to vendors and completing the purchase orders when the invoices are received. This means the Department has no firm commitments from vendors covering exact items and quantities being pur-

chased and prices to be paid. We recommend that this procedure be discontinued. Firm commitments should be established and communicated to vendors in advance of commitments being made. If, due to changes in requirements commitments change, vendors should be informed through the use of change orders.

5. Other weaknesses which reduce the effectiveness of internal controls are the absence of a central receiving department and central contract files. Central receiving provides independent verification of goods received and central contract files provide for proper payment verification.

Internal control over the procurement process requires that commitments be properly authorized and clearly communicated to vendors and that resulting payments be independently verified. Where possible, independent verification of receipt of goods protects the Department from theft.

Finally, decentralized procurement, if properly established, can satisfy internal control requirements; but, it does not enhance efficiency even though on the surface it may appear to. The relative ease of using field purchase orders eliminates planning and scheduling of future orders and consolidation of needs which can result in lower costs.

We recommend the Department consider establishing a central procurement office to control purchasing activity. It should assume authority and responsibility for Department procurement activity except for logical delegations of authority where necessary.

AGENCY RESPONSE

PRT now has one person responsible for all departmental procurement activity except (1) Service and Supply Center - Parks Division, and (2) Tourism advertising which is handled directly through the Division of General Services.

III. WEAK WAREHOUSE PROCEDURES

The Parks Division maintains a service and supply depot which provides warehousing and procurement support for all the State parks throughout South Carolina. As part of our audit, we examined procedures and reviewed the overall efficiency and effectiveness of this operation. In general, we found internal controls to be adequate except for the following weaknesses:

- 1) There is no separation between the procurement and payment approval processes. The Director of the Supply Center initiates warehouse restocking orders, supervises the procurement process and approves vendor invoices for payment. All invoices should be forwarded directly to the administration division by vendors. The invoice address on purchase orders should reflect this change.

AGENCY RESPONSE

We agree with the exception concerning no separation between the procurement and payment approval processes. Vendor invoices are now required to be mailed directly to Administrative Services Division which forwards them to warehouse procurement management for approval.

- 2) We also noted the inability of the automated data processing system to provide basic management information on a cumulative basis. Specifically, separate park inventory records are maintained which must be manually manipulated to provide stock usage information on a line item basis. This lack of a perpetual history data makes it difficult to project future needs. Accurate data can be used by warehouse management to determine stock requirements which can lead to increased turnover thereby reducing inventory levels and increasing available operating funds.

Minimum and maximum reorder points are not available for all line items. This data should be programmed into the stock usage reports and adjusted periodically throughout the fiscal year.

AGENCY RESPONSE

Entire automated system is being redesigned at present to come in line with recommendations. Until that system is installed, the present system is being monitored.

-
- 3) The data processing employee at the supply center uses an adjustment form on a regular basis as an input tool to add items to the master inventory which are manufactured in the carpentry shop such as picnic tables, cabinets, etc. Additionally, this adjustment form is used to reconcile differences between physical bin counts and the computerized inventory records.

According to warehouse personnel, each adjustment is investigated by the data entry employee to determine the reason for the discrepancy, which could be entry errors, inaccurate counts, or shrinkage resulting from theft or damaged merchandise. Several hundred adjustments are made each year. Constant manipulation of perpetual inventory levels is a weakness of internal controls which should be corrected by management as follows:

- (1) Adjustments should be approved by warehouse management.
- (2) Written explanations for adjustments should be prepared explaining the need for them.
- (3) Internal auditors should review all inventory adjustments periodically to determine if they were appropriate.

AGENCY RESPONSE

We concur with this exception and are implementing the three (3) recommendations of the auditor.

IV. LOST DISCOUNTS

The following vouchers were paid within the vendor's allotted time frame for taking discounts but the Department failed to take them.

<u>Voucher Number</u>	<u>Amount</u>	<u>Lost Discount</u>
12816	\$842.41	\$19.34
15765	\$1,391.95	\$27.84
15911	\$2,388.75	\$45.50

09016	\$949.20	\$9.49
09345	\$2,126.25	\$42.52
15374	\$967.47	\$18.43

We recommend that vendor discounts be taken when available.

AGENCY RESPONSE

The lost discounts are noted, and we will make every effort to insure that vendor discounts are taken when available.

V. INTERNAL PROCUREMENT OPERATING PROCEDURES MANUAL

P.R.T. does not have a comprehensive written internal procurement procedures manual. Currently, there are several written procedures being followed by separate divisions within the Department but no standardized procedures governing all procurement activity.

The Department submitted an internal procurement procedures statement to the Division of General Services which subsequently received approval from Materials Management on January 19, 1982. This approval was contingent upon Department compliance with the Consolidated Procurement Code and Regulations as determined by an on-site review by the Audit and Certification staff at a future date.

Based on the high volume of purchasing activity we do not feel the procurement procedures statement is adequate. In accordance with Section 19-445.2005 of the regulations, the Department should develop a comprehensive internal procurement procedures manual and submit it to the Division of General Services for approval.

AGENCY RESPONSE

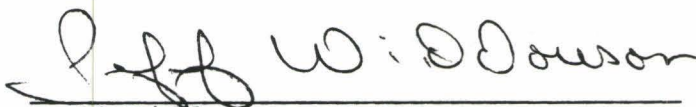
We appreciate this recommendation, and are in the process of the development of a procedures manual.

CONCLUSION


As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings in the body of this report, we believe, will in all material respects place the Department of Parks, Recreation and Tourism in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

In accordance with Code Section 11-35-1230(1) the Department should take this corrective action by September 30, 1986, the end of the next subsequent quarter, including the completion of the Internal Procurement Policy and Procedure Manual.

Subject to this corrective action and because additional certification was not requested, we recommend that the South Carolina Department of Parks, Recreation and Tourism be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.



Jeff Widdowson, P.P.B.
Auditor in Charge



R. Voight Shealy, Manager
Office of Audit and Certification

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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

March 2, 1987

Mr. William J. Clement
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Bill:

We have returned to the South Carolina Department of Parks, Recreation and Tourism (PRT) to determine the progress made toward implementing the recommendations in our audit report covering the period July 1, 1984 through June 30, 1985. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that PRT has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Because additional certification was not requested, we recommend that PRT, therefore, be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

